

## CHAPTER - I

### FOUNDATION ANALYSIS

#### 1.1 AGRICULTURAL MARKETING

According to Definitions Committee of the American Marketing Association, "Marketing includes all activities having to do with effecting changes in the ownership and possession of goods and services. It is that part of economics which deals with the creation of time, place and possession utilities, and that phase of business activity through which human wants are satisfied by the exchange of goods and services for some valuable consideration".<sup>1</sup> Cournot says, "Economists understand by the market not any particular place in which buyer and sellers are in such free intercourse with one another that the prices of the same goods tend to equality easily and quickly".<sup>2</sup> Macklin defines marketing as, "The creation of place, form, time and possession utilities while in actual practice it means rendering of necessary services such as assembling, packing, processing, transporting, storing, financing, risk-bearing, selling, etc".<sup>3</sup>

Agricultural marketing in its widest sense, comprises all the operations involved in the movement of food and raw-materials from the field to the final consumer. It includes the hoarding of product at the farm, initial processing,

grading and packing in order to maintain and enhance quality and avoid wastage. Agricultural marketing requires special attention other than for non-agricultural goods, as it faces special problems due to the special characteristics of agricultural goods. They are as below :

- (a) The output of agriculture is largely a raw-material which is used for further processing.
- (b) Compared to most other products, agricultural products are both bulkier and more perishable.
- (c) Much of the agricultural production is highly seasonal.
- (d) The quality as well as quantity of agricultural products are beyond the control of the producer. So due to imbalance in supply and demand of agricultural goods, prices fluctuate from time to time.
- (e) Agricultural output comes from many small units operating independently.
- (f) In the case of most of the agricultural goods, demand is relatively inelastic. Consequently, prices of agricultural goods rise sharply during the period of their short supply and fall sharply in the period of excess supply.

## 1.2 SERVICES REQUIRED IN AGRICULTURAL MARKETING

Marketing is as important as production. Marketing functions and services create time utility, place utility and possession utility. Marketing services are those by which the

original producer and the final consumer are linked together. Following services are very important in agricultural marketing.

- (1) Assembling : Assembly means the seeking out of sources of supply, buying wisely as to quality, quantity, variety and making commodities available, when and where they are wanted. Assembling begins as soon as farm products leave the farm. In developing countries, agricultural goods are produced by many cultivators in their small fields; that must be assembled first for meeting the demand of the consumer and secondly to provide a sufficient volume of business to middlemen like wholesalers and retailers.
- (2) Processing : There are very few agricultural products which are ready for final consumption when they leave the farm. Processing helps to create a new demand and maintains the quality of the product for a longer period. Processing, therefore, may be defined as the act or series of acts by which a product is converted into a more usable form. The processing function would include all of those essentially manufacturing activities that change the basic form of the product. Processing adds value in agricultural produce.

- (3) Standardisation and grading : The next important activity that facilitates the marketing of goods is standardization and grading. The service of sorting out products into groups of uniform kind, quality and size is known as grading. While standardization means the establishment of a certain standard based upon qualities of a commodity with a view to further sub-dividing it into several grades or classes. When a commodity is called a standard good, it is meant that it is of a certain quality. When we speak of quality in a standard good, it does not necessarily imply that it will be of the highest or the best quality. What standardization signifies is that a good is of a certain specified quality. When standardized goods are further sub-divide into well-defined classes, they are known to have been graded. Thus, standard has a broader significance than a grade. The effect of standardization and grading of a commodity is to inspire confidence in buyers and consumers generally as they give an idea of permanence. The function of standardization relates mainly to manufacturing products or can be applicable to processed agricultural goods. In marketing of agricultural goods, grading is more important.
- (4) Packaging : Closely allied to the process of grading is

that of packaging. Packaging is the process of placing commodities into convenient containers. The advantages of this service are that it protects the product from physical damage and deterioration in quality during transit, it provides the necessary protection against theft, adulteration and substitution during transit and it provides a convenient means of handling products. Packed products occupy less space during transit or when they are stored. It ensures cleanliness of the products.

- (5) Transportation : A commodity cannot be said to have been produced unless it is placed in the hands of users or consumers. Thus, transportation - the physical movement of commodities from the place of production to the place of consumption - is an important service that marketing needs as it creates place and time utilities. It is always desirable to transport an agricultural commodity as far away as possible to a more remunerative market. It is equally important to reach those product to the consumers at the proper time. In both the cases, transport plays a crucial role.
- (6) Storage : In agricultural industry, production is seasonal, while consumption of agricultural goods is a continuous process. Hence, in case of agriculture,

storage of goods is almost indispensable so that the goods can be protected from possible deterioration and supply is carried over for future consumption during the period of scarcity. Storage in fact creates time utility. It implies the keeping of farm products over period of time either in a warehouse or in a cold storage plant, depending upon the nature of the product. Sometimes producer himself stores the produce in anticipation of better price. Storage facilitates the obtaining of advances from bankers against the security of warehouse receipts. Due to storage, adjustments of demand and supply are possible, which brings about stability in prices.

- (7) Finance : During the period of storage of goods, it is obvious that somebody's money is invested in them. The money may come from either the producers, middlemen or functioning agency or manufacturers. Whatever may be the agency, it must face the possible loss that might arise on account of deterioration in quality of the goods held in storage or theft or fall in prices. Because of this handicap the service of financing is crucial. Warehousemen act both as storage agents and middlemen providing finance. Goods stored in warehouses become the security for loans or advances made by a banker or a financial house.

### 1.3 SIGNIFICANCE OF WAREHOUSING

Warehousing is storage for the purpose of commercial gain by specialised agencies. A warehouse is an establishment consisting of large technical personnel in charge of goods, stored under the care of a warehouseman with safeguards provided by law and subject to the supervisory control of a public authority. "The term 'warehouse', as defined in the United States Warehouse Act, is deemed to mean every building, structure or other protected enclosure in which any agricultural produce may be stored for inter-state or foreign commerce".<sup>4</sup> According to Bombay Warehouse Act, 1959, "Warehouse means any building, structure or other protected enclosure which is used or may be used for the purpose of storing goods on behalf of depositors but does not include cloak rooms attached to hotels, railway stations, the premises of other public carrier and the like 'Depositor' means a person who deposits goods with a warehouseman for storing in his warehouse and includes any person who lawfully holds the receipt issued by the warehouseman in respect of the goods and derives title thereto by endorsement or transfer from the depositor or his lawful transferee. 'Warehouseman' means a person who has obtained a licence under this Act for the purpose of carrying on his business of warehousing. 'Person' includes a firm and any company or association or body of

individuals whether incorporated or not".<sup>5</sup>

A licensed warehouse is required to obtain weigher, grader and sampler licences as well from the licensing authority which satisfies itself about the storageworthiness of the structure to be licensed before the grant of the licence. A licensed warehouse issues a receipt for the goods deposited in the warehouse in the prescribed form called a 'Warehouse Receipt', which may be marked 'negotiable' or non-negotiable'.

Warehousing is sometimes confused with storage, but it does imply storage as a regular industry. Warehousing comprises many functions; its main component is storage. It is often viewed as a mere auxiliary service. The term warehousing encompasses the facilities and services incidental to or connected with storage, transport, handling and distribution of inputs, finished goods and all kinds of other commodities.

Marketing covers all the business activity involved in the flow of goods and services from the producer to the consumer. Warehousing is an important chain in the system of marketing. No scheme of marketing can be complete without a reliable and efficient system of warehousing. The developing countries are striving for agricultural, industrial, technological and economic growth to improve the standard of living of their people. The establishment of a well-planned



network of warehouses is important both for domestic and international trade and public distribution of essential commodities. Warehousing is an essential infrastructure for trade, commerce and physical distribution of agricultural goods. The serious problem which the underdeveloped countries are facing is wastage of foodgrains particularly. Inadequate transport and storage facilities cause much waste and are directly responsible for food shortage, at least partially, which is already acute. As a 1948 F.A.O meeting in the Philippines, it was estimated that more than 10 million tonnes of rice was lost in the world in 1947-48 because of inadequate storage. According to the Commonwealth Secretariat, it was estimated that the post-harvest losses vary from 10 to 25 percent. In general it is said that, 10 to 15 percent of the foodgrains are lost during storage in tropical and sub-tropical countries. According to a report on losses of foodgrains in India by Birla Institute of Economic Research, at least 10 percent of the foodgrains are lost every year in storage alone. Panse Committee estimated a percentage loss at 9.33 in foodgrains during all post-harvest stages. The losses during storage are reported to be at 6.58 percent level. Even at this level India has lost 146.6 million tonnes of foodgrains due to storage alone during 1960-61 to 1981-82. As against this, India imported 83.16 million tonnes of foodgrains during the same period which is about 56 percent of

the losses occurring during storage alone. Hence, if efforts are made to avert 60 percent of the storage losses, the country will not only be able to wipe out its food deficit, but will become a net exporter of foodgrains. This is not the case with India alone but with many other developing countries also. This underlines the importance of an appropriate storage system which can reduce the preventable losses. The other advantages of efficient system of warehousing are as below.

- (1) It facilitates the obtaining of advances from bankers against the security of warehouse receipts, which are documents of title of goods. It will save farmers from the clutches of the money lenders.
- (2) It brings about stability in prices. As the function of storage is to equate supply and demand, it exerts an important influence on prices. That is to say, it tends to stabilise the prices throughout the year. When surplus goods are put in storage for future consumption, the producers are paid higher prices during periods of heavy production. This means that the consumers would have to pay higher prices for the time being by the holding back of the surplus goods. But the releasing of the stored goods during periods of scarcity tends to lower prices to the consumers during such periods. Thus, equalisation of supply and demand

throughout the year is effected through storage with the stabilisation of prices.

- (3) It will ensure farmers to get the benefit of remunerative prices by storing their produce till favourable price could be obtained. It helps in getting incentives back to farmers, which is essential for modern agriculture.
- (4) It will prevent distress sale of agricultural produce immediately after harvest when the prevailing prices are at their lowest.
- (5) It will reduce pressure on transport facilities in post-harvest periods of peak demand for transport.
- (6) The goods are handled properly and stored scientifically to prevent damage, deterioration and loss during handling and storage.
- (7) This will also make available agricultural inputs required for growing crops and increasing production.
- (8) The loss, if any, in quality or quantity is minimum.
- (9) Warehouses are being run in public interest on business principles. These are not profit-motivated. They realise storage charges for providing scientific storage of goods and a minimum percentage of supervision charges on handling, transporting and other incidental expenditures incurred on behalf of the depositors.

It is clear from the above discussion that, warehousing is very essential infrastructure in agricultural development. It removes many difficulties of marketing. It provides many essential services to agricultural marketing and ultimately for economic development. Its importance is much more in developing countries, as these countries are predominantly agricultural countries where farmers are in the clutches of moneylenders, where price fluctuation of agricultural goods is larger, where farmers do not get remunerative prices for their produce, and where much foodgrain is wasted due to improper storage facility. That is why in recent times it is said that one of the indicators of economic development of a country is the growth of its warehousing facilities.

#### 1.4 RESEARCH FRAMEWORK

##### 1.4.1 OBJECTIVES

During the years of planned economic development in India, considerable attention has been given to increasing the productivity and production of agricultural commodities. Foodgrain production had obviously assumed greater importance. New Agricultural strategy was ushered in since mid-sixties, and there has been a phenomenal rise in foodgrains production. Improved technology for non-food crops too was introduced leading to production enhancement of these crops also. Simultaneously with this, the problem of marketing of these products assumed importance and the issue of returns to the

primary producer became crucial.

On this background, efforts were made to improve the existing marketing system in the country. One of the measures in this context was development of warehousing infrastructure not only in the urban and semi-urban areas but also in rural areas. Both the Central and State Governments took initiative on their own as also provided financial support to private and co-operative institutions for undertaking newly or for enhancing the existing warehousing activity as an adjunct to help the primary producer realise better price for his product.

It becomes, therefore, necessary to examine the efforts done in this respect, their outcome and the problems confronted by different agencies. It appears that such as assessment of agricultural warehousing activity is conspicuous by absence. The present study is a modest attempt to fill that void. Specific objectives of the investigation may be put down as under :

- (1) To trace the evolution of public warehousing in India and Maharashtra.
- (2) To examine the functioning and achievements of the Maharashtra State Warehousing Corporation.
- (3) To assess the performance of co-operative institutions in Maharashtra in providing warehousing facility.
- (4) To bring out the part played by the Agricultural Produce

Market Committees in Maharashtra in discharging their function of making available adequate storage accommodation within the premises of market yards.

- (5) To find out the extent to which the warehousing facilities are utilised and by whom with special reference to the producer-users.

#### *1.4.2 SCOPE OF THE STUDY*

As a starting point, the study covers the origin and development of warehousing activity in India. This was necessary to understand the developments at the micro-level. All the latter part of the study is micro-level one pertaining to warehousing in Maharashtra State. Within the state, warehousing facility is provided by a variety of private, public and co-operative institutions, viz., Central Warehousing Corporation (CWC) Maharashtra State Warehousing Corporation (MSWC), Co-operative marketing institutions, Agricultural Produce Market Committees (APMCs), Food Corporation of India, fertiliser companies, sugar mills, spinning mills, Food and Civil Supplies Department of the state government, and so on. The present study is, however, delimited to delving into the operations of the CWC, MSWC, APMCs and co-operative marketing societies. Furthermore, warehousing for storage of agricultural goods has been the only consideration here; non-agricultural goods have been left out.

#### 1.4.3 HYPOTHESIS

Though agricultural warehousing facility has been extended far and wide in Maharashtra State particularly for the benefit of the primary producer, the actual experience is far from the goal envisaged. This hypothesis is tested in this study with the help of information relating to the warehousing activities of the CWC, MSWC, APMCs and the marketing co-operatives.

#### 1.4.4 METHODOLOGY

The entire study is based on the secondary data culled from the offices and publications of the CWC, MSWC, APMCs, Directorate of Marketing Board and Maharashtra State Market Committees' Federation Ltd. Besides these, a number of books and research articles have been referred to for general information on significance of warehousing in agricultural marketing as also the warehousing activities in Maharashtra State. An exhaustive list of all the reference works is given in the Bibliography.

In the context of warehousing by the APMC's, for an indepth study, purposively a sample study of Shahu Market Yard, Kolhapur has been undertaken. The sample was restricted to this solitary case for want of time to go around more yards. Moreover, the intention in including this single case was to focus attention on the state of affairs in a well-developed market yard, on the basis of which, a general

inference about the probabilities elsewhere in the State could be indicated.

Opportunities were taken to discuss the matters personally with the officials of the institutions under reference for seeking opinions and clarifications on the vital issues concerning their institution.

#### *1.4.5 DATA CONSTRAINTS*

The researcher was all the time handicapped by non-availability of comprehensive information on warehousing with any of the agencies contacted. Surprisingly, governmental offices too did not have adequate details particularly about available storage capacity, extent of utilisation, userwise utilisation, commoditywise break-up, and so on. Actually, such details are of great value in planning for warehousing and in increasing the utilisation of the facility provided at great expense. Nonetheless, the investigation has been completed with the help of the information that could be accumulated with all the possible efforts.

#### *1.4.6 SCHEME OF STUDY*

This study has been divided into six chapters.

Chapter one is introductory and provides a backdrop for the study. Very briefly it brings out the meaning of marketing, services required in agricultural marketing and significance of warehousing. The later part of the chapter pertains to methodological details.



Chapter two focuses on the development of warehousing facility in India, objectives and functions of warehousing, growth of Central Warehousing Corporation and State Warehousing Corporations and their inter-relationship. Thereafter, details about origin and progress of warehousing in Maharashtra and warehousing during the Sixth and Seventh Five Year Plans are given.

Chapter three is concerned with the Maharashtra State Warehousing Corporation and discusses its source of finance, storage facility installed, progress, utilisation of storage capacity, commoditywise and userwise distribution of the storage capacity and cost of storage.

Chapter four is devoted to co-operative warehousing. It comprises analysis of the institutions providing the facility, installed capacity, progress, National Grid for Rural Godowns (NGRG), NCDC - II and III, World Bank Storage Project, storage capacity in co-operative sector, Training of Personnel in Co-operatives (TOPIC), utilisation of storage capacity and cost of storage.

Chapter five is on the warehousing activity by the Agricultural Produce Market Committees (APMCs) and examines the nature and extent of facility provided by them in market yards, utilisation of the available storage capacity and the problems therein. A Sample Study of Shahu Market Yard, Kolhapur in this context also forms part of this chapter.



Chapter six summarises the conclusions and present a few suggestions.

#### REFERENCES

1. Sadhu and Singh : *Fundamentals of Agricultural Economics*, Himalaya Publishing House, Bombay, 1983, P.221.
2. Kulkarni K.R. : *Agricultural Marketing in India*, The Co-operators Book Depot, Bombay, 1964, P.3.
3. Ibid, P.3
4. Ibid, P.96
5. Chibber O.N. : *Warehousing Corporations in India*, Central Warehousing Corporation, New Delhi, 1982, P.29.